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Governance and foreign direct investment in developing and developed countries

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Abstract

In this paper, we'll try to study the impact of governance indicators and macroeconomic variables on the attractiveness of foreign direct investment in 20 developed and developing countries over the period 1998–2010 using fixed effects panel regressions. Our results generally indicate that only two indicators of governance namely, political stability and regulatory quality have a significant impact on FDI inflows. This indicates, for our overall sample, that foreign investors are interested in political stability and regulatory quality in their choice of investment abroad. This paper also investigates the impact of macroeconomic variables on the attractiveness of FDI. Generally, in most models, either developed or developing countries, these variables provide a significant sign, which indicates the importance of these factors in the attraction of FDI. Indeed, market size, trade openness, infrastructure quality, the current account deficit have a significant effect on FDI inflows.

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